

THE CHANCERY COURT FOR LEWIS COUNTY  
AT HOHENWALD, TENNESSEE

FILED

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IN RE:

SENTINEL TRUST COMPANY

NO. 4781

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DEC 06 2004

JANET WILLIAMS, CLERK & MASTER  
BY: Selena Wy D.C.

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MOTION FOR APPROVAL OF DISTRIBUTION OF FUNDS REALIZED  
UPON WASHINGTON COUNTY, MISSISSIPPI BOND ISSUE AND THE  
CLOSING OF MATTERS RELATING TO THAT ISSUE SAVE THROUGH  
THE PROOF OF CLAIM PROCESS

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I. INTRODUCTION

Sentinel Trust Company, in Liquidation, moves the Court to approve the distribution of funds realized upon the Washington County, Mississippi Urban Renewal Multifamily Revenue Bonds (Greenville Residential Care Center Project) Series 1997 A, B and C ("Washington County Bond Issue").

II. FACTUAL BACKGROUND

The Washington County Bond Issue related to the financing of an assisted living facility in Greenville, Mississippi. In or around 1999, the bond issue fell into default. Sentinel Trust was indenture trustee to the bond issue. Numerous attempts were made to sell the underlying collateral (i.e., the assisted living facility), however, those efforts proved unsuccessful. The condition of the property deteriorated, including an incident wherein various water sprinklers malfunctioned.

At the time of the institution of the Sentinel Trust Receivership, agreement had already been made regarding the disposition of the property, which had or would yield approximately \$160,000.00, plus an approximately \$30,000.00 previously established escrow earnest money

account to the seller. As part of this transaction, the buyer of the property assumed approximately \$1.0 million of various back taxes owed by the assisted living facility. The Receiver checked with attorneys representing Sentinel and others involved in the Washington County Bond Issue and was told uniformly that the sale was the best that could be had given the lack of other interested purchasers (three previous attempts to sell had fallen through) and the condition of the property.

The Washington County Bond Issue bondholders received numerous notices throughout the time that the bond issue was in default, prior to the Sentinel Trust Receivership being instituted. The February 13, 2004 Notice, Exhibit A hereto, recited the background of the circumstances and requested direction from the bondholders as to whether third-party litigation should be pursued against contractors for building defects -- and, if so, requested advancement of funds from the bondholders to pursue that litigation. That February 13, 2004 Notice also had attached a financial summary of the Washington County facility. The last Notice of Bondholders issued prior to the Sentinel Trust Receivership was on March 16, 2004 (see Exhibit B) which indicated that third-party litigation would not be pursued because no bondholder had agreed to advance funds to pursue that effort. The March 16, 2004 Notice also notified that the bonds they were holding from the Washington County Bond Issue should be considered as "without value."

Local counsel for Sentinel Trust in the Washington County, Mississippi receivership action has informed the Sentinel Trust Receiver that it is not believed that there are any claimants or creditors on the Washington County Bond Issue other than the bondholders themselves. In July 2004, the Mississippi state court receivership was terminated and the remaining funds transferred to the Sentinel Trust Receiver.

### III. DEDUCTION OF FEES AND EXPENSES

The Washington County Bond Issue documents provide that, in a default context, fees and expenses attendant to the default and the preservation and realization upon the collateral were to be deducted from the proceeds of the sale of the collateral. If proceeds remain after those deductions, then the excess is paid to the bondholders.

Unfortunately, there is no excess of funds to distribute to the Washington County Bond Issue bondholders. The amounts due Sentinel Trust pre-receivership and due the Receiver post-receivership for default fees and attendant expenses exceeds the amounts realized from the sale of the collateral. See Exhibit C. Based on previous rulings from the Court, the Receiver has transferred the amounts it has received from the sale of the collateral to Sentinel Trust operating accounts. The payment of these fees and charges to the Sentinel Trust Receiver from the proceeds of the sale of the collateral leaves no excess of funds to address amounts that were, pre-receivership, paid out of the pooled fiduciary account for purposes of funding the Washington County Bond Issue default.

One final matter regarding distribution on the Washington County Bond Issue concerns disposition of a escrow account and payment of pre- May 18, 2004 attorneys' fees. In conjunction with the pre-receivership sale of the real estate, the law firm of Waller Lansden Dortch & Davis PLLC ("Waller Lansden") received approximately \$30,000.00 for earnest money escrow. However, that law firm has unadjusted fees of \$29,987.98 owed to it for services provided pre- May 18, 2004 on the Washington County Bond Issue matter. The Receiver maintains that these attorneys' fees are reasonable and appear to have been necessary in relation to Sentinel Trust's performance of its duties as indenture trustee for the Washington County Bond Issue. Nevertheless, as an accommodation to the circumstances confronting the Sentinel Trust Receivership, Waller Lansden has agreed to reduce the amount owed to it by fifty percent

(50%), the total owed thereafter being \$14,993.99. See Exhibit C. The Sentinel Trust Receiver recommends that this reduction be accepted and that the Court approve the reduced amount be paid from the approximately \$30,000.00 held in escrow by Waller Lansden, with the remaining \$15,012.89 being paid to the Sentinel Trust Receivership, which would then deposit that amount into its operating account.

#### **IV. NO DISTRIBUTION TO BONDHOLDERS CAN BE MADE**

Unfortunately, with the deduction of fees and expenses, which is allowed under the bond issue documents and which is needed (along with funds from other sources) to provide for the efforts of the Receiver in operating the Sentinel Trust Receivership (including efforts to increase the assets of that estate), no funds remain for a distribution to the Washington County Bond Issue bondholders. This result, while regretted by the Receiver, is one that the bondholders had been notified of through the March 16, 2004 Notice to Bondholders which declared the bonds to be "without value." See Exhibit B.

#### **V. ARGUMENT IN FAVOR OF DISTRIBUTION AS SET FORTH HEREIN**

The Washington County Bond Issue documents allow for payment of default fees and expenses incurred by Sentinel Trust. Those amounts, both pre- May 18, 2004 and post- May 18, 2004, exceed the amount realized from the sale of the collateral.

The Washington County Bond Issue is, hopefully, the worst that the Receiver will bring to this Court. It is an \$18.5 million bond issue which is paying nothing to its bondholders. It presents an "overdraft" of \$187,923.79 to the pooled fiduciary account without funds to "repay" that account. What is clear are three matters. First, the fiduciary fees and default administration fees and related expenses (both pre- and post- May 18, 2004) are allowed priority under the bond issue documents and aggregate to more than the proceeds of the sale of collateral. Second, payment of the proceeds of the sale of collateral to address the fiduciary fees and attendant

default fees and expenses would be payment to the Sentinel Trust Receivership, which (along with funds from various other sources) would fund the operations of the Sentinel Trust Receivership, including efforts to further recover funds and to grow the assets of the receivership estate. And third, any excess monies at the end of the Sentinel Trust Receivership will be distributed to the then remaining creditors and claimants. Accordingly, the Receiver requests the Court to approve the distribution of the proceeds of the Washington County Bond Issue collateral as follows: \$174,192.18 to the Sentinel Trust Receivership as to pre- May 18, 2004 and post- May 18, 2004 fiduciary fees and default expenses and \$14,993.99 to Waller Lansden as to the services provided by that firm pre- May 18, 2004.

**VI. REQUEST FOR COURT TO ORDER THAT ALL CLAIMS AS AGAINST  
SENTINEL TRUST BY WASHINGTON COUNTY BOND ISSUE  
BONDHOLDERS BE THROUGH THE PROOF OF CLAIM PROCESS**

The Receiver requests that, as part of the Court's Order approving the Washington County Bond Issue distribution, the Court provide that the bondholders' recourse regarding matters relating to the Washington County Bond Issue be limited to presenting a proof of claim in the proof of claim process soon to be submitted, by the Receiver, to this Court for review and approval. As has earlier been stated to the Court in different contexts, it is extremely important that multiple actions by varying groups of bondholders, racing to the courthouse to gain advantage as to one another, not be allowed. Similarly, it is very important the proof of claim process be the venue for uniform treatment of claimants under this Court's supervision and that the Receiver's pursuit of third-party claims on behalf of all claimants be allowed unimpeded. For these reasons, it is requested that the Court's Order include a provision requiring any Washington County Bond Issue bondholder to pursue claims relating to that bond issue in the Sentinel Trust Receivership through the proof of claim procedure.

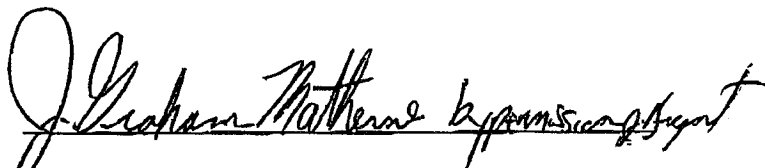
## VII. NOTICE TO BONDHOLDERS

Notice of this Motion was provided to all of the Washington County Bond Issue bondholders known to the Sentinel Trust Receiver. That Notice, a copy of which is attached as **Exhibit D**, was mailed on Monday, December 6, 2004, to each known bondholder at his/her/its address as reflected in the Sentinel Trust records. That Notice informs the bondholders of much of the contents of this Motion, informs them of when and where the hearing of this Motion is to occur, directs them to the Department of Financial Institutions website to review the full text of this Motion (including exhibits) and provides them with telephone numbers to call with questions.

## VIII. CONCLUSION

For the stated reasons, the Sentinel Trust Receiver requests that an Order of Court issue as requested herein.

Respectfully submitted,



J. Graham Matherne, BPR #11294

Wyatt, Tarrant & Combs, LLP

2525 West End Avenue, Suite 1500

Nashville, TN 37203-1423

(615) 244-0020

*Counsel for Jeanne Barnes Bryant and*

*Receivership Management, Inc., Receiver  
of Sentinel Trust Company, in Liquidation*

# SENTINEL

## TRUST COMPANY

8122 Sawyer Brown Road  
Nashville, TN 37221-1402

Telephone: (615) 662-5129

(800) 825-6596

Telecopier: (615) 646-6513

February 18, 2004

### **Notice to Bondholders Written Response Requested**

**\$18,500,000 Washington County, Mississippi Urban Renewal Multifamily Housing Revenue Bonds (Greenville Residential Care Center, L.P. - Project), Series 1997 A, B & C (the "Bonds"). Reportedly CUSIP # 938047 AA5, AB3, AC1, AD9, AE7, AF4, AG2, AH0, AJ9, AK3, AL1, AM9, AN7, AP2.**

Sentinel Trust Company (the "Trustee"), as indenture trustee for the Bonds, has reason to believe that the architect and general contractor (including subcontractors) have liability with respect to the original construction of the Greenville Residential Care Center (the "Project"), which serves as collateral for the Bonds (together, the Project and all personal property and revenues generated therefrom constitute the "Collateral"). This Notice is being sent in an effort to determine if the Bondholders want the Trustee to pursue litigation against the architect, general contractor, and subcontractors, and, if so, whether the Bondholders are willing to fund such litigation, inasmuch as there are no funds currently available to pursue it.

#### **A. Background**

In connection with the issuance of the Bonds, Washington County, Mississippi (the "County") loaned the net proceeds of the Bonds to Greenville Residential Care Center, L.P. ("Greenville RCC") for purposes of allowing Greenville RCC to acquire, construct, and equip the Project. At no time did the Project generate revenues sufficient to pay its operating expenses, and Greenville RCC defaulted on its obligations under the Bonds and Loan Documents. As a result of Greenville RCC's default, the County also defaulted on its non-recourse obligations under the Trust Indenture. On July 19, 1999, Sentinel declared a default and accelerated all sums due under the Loan Documents. Upon the Trustee's request in September of 1999, the Chancery Court of Washington County, Mississippi (the "Court") appointed a receiver to take possession and control of the Project and Collateral.

994071.8





The Project continued to fail to generate revenues sufficient to pay its operating expenses, and consequently, the Trustee, pursuant to the Receivership Order, paid the monthly operating shortfalls from funds held by the Trustee under the Trust Indenture. Eventually, however, the Receiver determined, with the Trustee's consent, that the Project should be closed. On October 8, 2002, the Court entered an Order Authorizing Receiver To Close Project And Approving Procedures For Same. Since that time, the Project has not been operated. As of February 12, 2004, the Trustee had advanced \$1,978,390.35 to cover operating shortfalls and insurance. Attached to this Notice is a breakdown of all the expenses paid by the Trustee, netted against the amounts the Trustee had on hand as of the default and the funds received from the insurance company. The Trustee is still owed approximately \$336,000. Even though the Project is closed, some expenses will continue to accrue, such as utilities, insurance, legal fees, other professional fees, and security.

Since the date the Receiver was appointed, the Trustee has attempted to facilitate a sale of the Project. There have been no less than three attempts to close sales on the Project, but each time the buyers failed to close for one reason or another.

On June 17, 2002, the Court entered its first Order Authorizing Receiver To Sell Project at Public Auction And Approving Procedures For Same. The auction was conducted on July 25, 2002, at 1:00 p.m. local time. Four (4) bidders registered to bid. The bidding opened at \$1,000,000, with a second bid of \$1,100,00. No other bids were received, and the Receiver, with the Trustee's consent, cancelled the auction for lack of a sufficient bid. On December 5, 2002, the Court authorized the Receiver to sell the Collateral for \$1,850,000. This second sale was to close by March 31, 2003. However, on or about January 24, 2003, a substantial portion of the sprinkler system at the Project burst. Early estimates reflected damage in excess of \$1,000,000. Since that incident, the Receiver and other interested parties have examined the Project and found extensive construction defects, in addition to those defects which caused the sprinkler system to burst. Because of the extensive construction defects, the second sale did not close. The Trustee received an insurance payment of \$741,758.57 for the damage caused by the sprinkler system bursting.

On or about June 2, 2003, the Court entered its Order Authorizing Receiver To Sell Personal Property, thereby authorizing the sale of certain personal property via one or more private or public sales, for cash to the highest and best offeror. The sale of the personal property did not occur, because the Receiver received an offer to buy the Project, as well as the personal property, for the total price of \$400,000. The Trustee and the Receiver determined that this offer would net more than separate sales of the Project and the personal property. On October 21, 2003, the Court entered its Agreed Order Authorizing Receiver To Sell Project And Approving Procedures For Same approving the third sale. Due to the purchasers' breach of the sale contract, the third sale did not close. The Trustee will retain the purchaser's earnest money of \$75,000 as liquidated damages.

In addition to the problems outlined above, numerous other issues exist with respect to the property taxes owed on the Collateral. At a tax sale on April 2, 2001, a third party paid the delinquent County and City taxes of \$283,358.65, plus accrued interest of \$8,500.76 and costs of \$3.00, for a total of \$291,862.21. On April 2, 2003, the April 2, 2001 tax sale matured without redemption. The third party is currently in the process of attempting to confirm title on the Project and a second tax sale is scheduled to mature this April. The inability to redeem either tax sale as a result of the Trustee's inability to sell the Collateral has further depleted any funds that would be available to fund the litigation against the architect and general contractor.

#### **B. Potential Litigation**

As indicated above, the Trustee believes there may be claims against the architect, general contractor, and one or more subcontractors for the construction defects discovered after the sprinkler system burst. If a majority of the holders of the Bonds desire to pursue this litigation, they will be required to provide, in advance, the funds necessary to pay legal counsel, consultants and experts.

The cost of the litigation is estimated at \$500,000 for legal fees and expenses (the "Litigation Fund"). It is difficult to estimate the amount that could be recovered in such a lawsuit. However, the Trustee believes the damages caused by the defective work exceeds \$1 million. Reimbursement of funds contributed to the Litigation Fund will be made from any proceeds of the litigation prior to any bondholder distribution of same.

**C. No Distribution To Bondholders Absent Litigation Recovery**

Should holders of the Bonds desire to pursue this litigation and contribute to the Litigation Fund, please inform the Trustee in writing of the amount you are willing to contribute to the Litigation Fund. Only upon receipt, by the deadline specified below, of a written direction from the holders of a majority in principal amount of the Bonds outstanding, and a commitment to contribute at least \$500,000 total to the Litigation Fund, will the Trustee begin collecting funds for the Litigation Fund and instruct the Trustee's legal counsel, Waller Lansden Dortch & Davis, PLLC, to institute proceedings against the architect, general contractor, and other viable defendants. In light of the condition of the Project, its lack of marketability, the pending tax liens/sales, and the lack of funds available to the Trustee, the Trustee has concluded it is necessary to abandon the Project to the tax claimants. The Trustee will, however, attempt to sell at auction the personal property remaining in the Project, inasmuch as that property is not subject to the tax liens. The Trustee does not anticipate receiving much from such auction. Accordingly, absent any net recovery from the potential litigation against the architect, general contractor, and certain subcontractors over and above the costs of such litigation and the Trustee's outstanding fees and expenses, the Trustee does not anticipate there will be any distribution to Bondholders, and the bonds will be declared without value.

Your written response should be delivered to Sentinel Trust Company, 8122 Sawyer Brown Road, Suite 201, Nashville, TN 37221, to the attention of James A. Skinner **NO LATER THAN** March 15, 2004.

Sentinel Trust Company,  
As Trustee

**EXHIBIT**

**February 12, 2004  
Summary of Transactions  
Washington Co MS**

	<b>Principal Cash Chg.</b>
<b>Previous Statement Balance:</b>	<b>\$1,827,881.30</b>
<u><b>Cash Receipts</b></u>	
<b>INSURANCE PROCEEDS</b>	<b>741,768.57</b>
<b>EARNEST MONEY</b>	<b>75,000.00</b>
<b>VAN SALE</b>	<b>5,000.00</b>
<b>INTEREST INCOME</b>	<b><u>65,594.24</u></b>
<b>TOTAL</b>	<b>\$ 887,352.81</b>
<u><b>Cash Disbursements</b></u>	
<b>ACCOUNTING</b>	<b>\$ -5,138.70</b>
<b>DEFAULT ADMINISTRATION</b>	<b>-281,924.77</b>
<b>FIDUCIARY FEES</b>	<b>-142,500.00</b>
<b>FILING &amp; RECORDING</b>	<b>-547.62</b>
<b>INSURANCE</b>	<b>-97,948.45</b>
<b>INTEREST EXPENSE</b>	<b>-108,627.81</b>
<b>LEGAL EXPENSE, OTHER</b>	<b>-344,998.14</b>
<b>MISCELLANEOUS EXPENSE</b>	<b>-64.23</b>
<b>NOTICES &amp; PUBLICATION</b>	<b>-385.00</b>
<b>OPERATING EXPENSE</b>	<b>-1,859,173.28</b>
<b>OTHER PROFESSIONAL FEES</b>	<b>-192,872.70</b>
<b>PRINTING &amp; COPYING</b>	<b>-906.75</b>
<b>TAXES</b>	<b><u>-16,129.92</u></b>
<b>TOTAL</b>	<b>\$ -3,051,217.37</b>
<u><b>Current Statement Balance</b></u>	<b>\$ -335,983.26</b>

# SENTINEL

## TRUST COMPANY

8122 Sawyer Brown Road  
Nashville, TN 37221-1402

Telephone: (615) 662-5129  
(800) 825-6596  
Telecopier: (615) 646-6513

March 16, 2004

### Notice to Bondholders

**\$18,500,000 Washington County, Mississippi Urban Renewal Multifamily Housing Revenue Bonds (Greenville Residential Care Center, L.P. - Project), Series 1997 A, B & C (the "Bonds").** Reportedly CUSIP # 938047 AA5, AB3, AC1, AD9, AE7, AF4, AG2, AH0, AJ9, AK3, AL1, AM9, AN7, AP2.

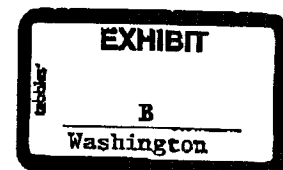
In accordance with Notice to Bondholders dated February 13, 2004, no holders of the Bonds have agreed to advance funds for the Litigation Fund by the March 15, 2004 deadline.

Holders of the Bonds who desire a letter from Sentinel Trust Company (the "Trustee"), as indenture trustee, stating the Bonds are without value, should surrender the Bonds (certified mail suggested) for cancellation to the Trustee. The Trustee will deliver by return mail to holders who have delivered the certificates for the Bonds, a letter for holders' tax purposes.

Deliver the Bond Certificate to:

Sentinel Trust Company  
Corporate Trust  
29 West Main Street  
Hohenwald, TN 38462

Sentinel Trust Company as Trustee



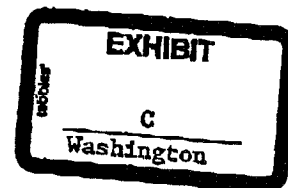
**Sentinel Trust Company**  
**\$18,500,000**  
**Washington County, Mississippi**  
**Urban Renewal Multifamily Housing Revenue Bonds**  
**(Greenville Residential Care Center Project), Series 1997 A, 1997 B, 1997 C**  
**Default Issue**

**Final Accounting for Final Distribution to Washington County, Mississippi**  
**Bondholders**

**Account Summary for Washington County, Mississippi**  
**For the Period September 11, 2002 through May 18, 2004**  
**EXHIBIT C**

**Summary**

Total Money Received July 9, 2004	159,179.29
Total Pre May 18, 2004 Payable Due Fiduciary Account	(187,923.79)
Total Pre May 18, 2004 Payable Due Sentinel Trust Company	(276,789.22)
Total Remainder of Legal Deposit due Washington Co., MS	15,012.89
Total Post May 18, 2004 Expenses Due	<u>(73,213.75)</u>
Net Total Available to Bondholders	<b>(363,734.58)</b>
 Total Amount Payable to Bondholders	 <u>                  -</u>
 Residual Balance for Final Expenses	 <u><b>(363,734.58)</b></u>



Sentinel Trust Company  
\$18,500,000  
Washington County, Mississippi  
Urban Renewal Multifamily Housing Revenue Bonds  
(Greenville Residential Care Center Project), Series 1997 A, 1997 B, 1997 C  
Default Issue

Account Summary for Washington County Mississippi		
For Period September 11, 2002 through May 18, 2004		
Beginning Balance		11,808.15
Contributed Capital		821,758.57
Insurance		(74,048.32)
Legal Expense		(230,137.56)
Printing and Copying		(16.33)
Misc. Exp. (Wachovia sending Bondholder Notices)		(84.23)
Other Professional Fees		(85,598.23)
Operating Expense		(543,500.00)
Taxes		(16,129.92)
Fiduciary & Default Admin. Fees		(71,993.92)
Payable Due Fiduciary Account		(187,923.79)
Fiduciary Fees		(53,437.50)
Interest Expense		(124,313.34)
Default Admin. Fees		(171,032.30)
Fees Paid		71,993.92
Payable Due Sentinel Trust Company		(276,789.22)
Account Balance May 18, 2004		(464,713.61)
Waller, Lansden, Dortch, and Davis Pre May 18, 2004 Unpaid Fees (29,987.98 @ 50%)		(14,993.99)
Deposit on Escrow with Waller, Lansden, Dortch, and Davis for Washington, Co., MS		30,006.88
Total Remainder of Legal Deposit due Washington Co., MS from Waller		15,012.89
Assessment of Fiduciary Fees for WASHINGTON COUNTY, MISSISSIPPI Post May 18, 2004		
Fiduciary Fee due September 1, 2004		(17,812.50)
Fiduciary Fee Prorated for October thru December, 2004		(8,906.25)
Default Administration Fee		-
Termination Fee based on Original Issue Amount A16		(46,250.00)
Other Fee Assessment (Legal Counsel)		(245.00)
Total Expenses Post May 18, 2004		(73,213.75)

**Notice to Bondholders**

**\$18,500,000 Washington County, Mississippi Urban Renewal Multifamily Housing Revenue Bonds (Greenville Residential Care Center, L.P. – Project), Series 1997 A, B and C (the “Bonds”). Reportedly CUSIP #938047AA5, AB3, AC1, AD9, AE7, AF4, AG2, AH0, AJ9, AK3, AL1, AM9, AN7 and AP2.**

The Trustee has previously notified bondholders by notice dated February 13, 2004 and March 16, 2004 that the Bonds have been declared without value due to the condition of the Project, its lack of marketability, pending tax liens/sales and the lack of funds available to the Trustee.

The Receiver for Sentinel Trust Company has filed with the Chancery Court in Lewis County, Tennessee a Motion requesting approval to make payment of fees and expenses incurred by the Receiver since May 18, 2004 and fees and expenses incurred by Sentinel, to the extent any funds are available. Fees and expenses normally include such items as expenses incurred in connection with collateral sale, default administration, legal and professional fees. Sufficient funds are not available to pay all fees and expenses incurred by the Receiver and Sentinel. Please refer, on or after December 6, 2004, to the website for the Tennessee Department of Financial Institutions at [www.state.tn.us/financialinst/](http://www.state.tn.us/financialinst/) to view the Motion and Exhibit concerning these fees and expenses. The Motion for Approval will be heard by Chancellor Davies in Lewis County Chancery Court in Hohenwald, Tennessee on Wednesday, December 15, 2004, at 9:00A.M. CST.

**Bondholders with questions about this notice may direct them to the Receiver for Sentinel Trust Company, Jeanne Barnes Bryant at 931-796-7961.**

Dated: December 6, 2004

Sentinel Trust Company, as Trustee

